

Delta Investment Management is a registered investment advisory firm headquartered in San Francisco. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new partner. Delta manages portfolios at TD Ameritrade and Schwab. Please contact Delta at info@deltaim.com or 415-249-6337 to learn more.

December 7, 2018

Range Bound For Now

On October 10, the S&P 500 fell below its trend line and since has been confined to a range of roughly 2,820 on the high end and 2,620 on the low end. This is roughly a 7% range. Depending on what day one measures market performance in the past two months, the market could be up year-to-date about 7% or have no gain.



When the market nears the low-end of the range, it finds valuation support. S&P 500 earnings are up over 25% in 2018 and companies are buying stock back at a record pace. The P/E of the S&P 500 is about 15x at the low end of the range which is a point below its 25-year average value. When the market nears the high-end of the range (P/E 16x), it encounters resistance from growth concerns driven by China trade issues and potentially rising rates.

If the trade war with China is resolved and Federal Reserve signals they will pause rate hikes near-term, we would expect the market to breakout of the range to the upside. If the U.S. and global economies show signs of slowing and earnings estimates are

reduced, we would expect the market to breakdown through the bottom of the range. Unfortunately at this time the evidence is inconclusive and we have to wait and see.

Because of heightened volatility with the market moving as much as 2-3% in a day, attempting to actively trade in this environment is likely to exacerbate losses.

There are reasons to be optimistic. Just this week:

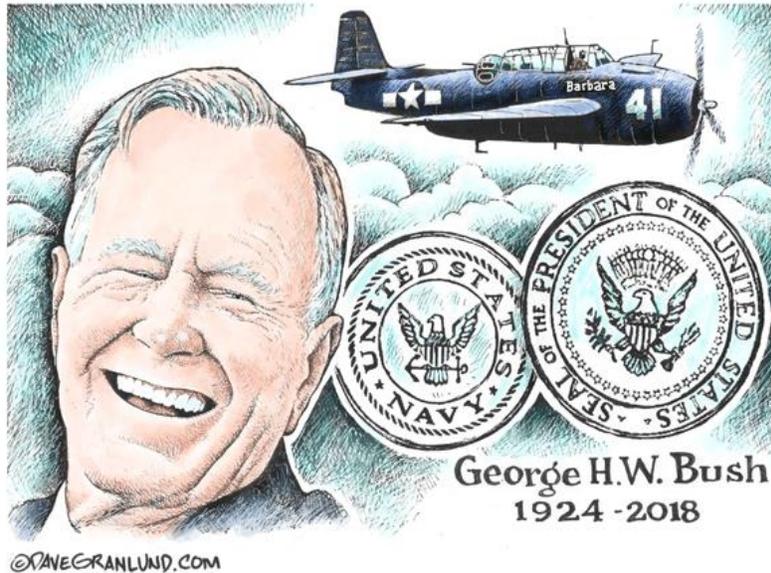
- The Trump administration announced a 90-day trade war truce with China.
- The ISM Manufacturing Index for November was 59.3%, better than the consensus expectation of 57.2%. Readings above 50% show expansion.
- The ISM Services Index for November was 60.7%, better than the consensus expectation of 59.0%.
- Unit labor cost growth for the third quarter was reported at 0.9%, below the expectation of 1.2%. Rising wages are a potential source of inflation. Below expected wage increases is encouraging for an outlook of lower interest rates.
- The 10-year U.S. treasury rate fell to about 2.83% from a high 12-month high 3.24%. The positive is it will cost borrowers less to borrow money. The negative is it may be a signal from the bond market that economic growth is slowing. It certainly suggests we do not have an inflation problem and may give the Federal Reserve added incentive to pause rate increases sooner rather than later.

Stock market prices are a leading indicator (they are one of the ten inputs to the Leading Economic Index). If stock prices breakdown below the current range, they may be signaling a fundamental deterioration in the economy that has yet to appear in the data or forward consensus earnings expectations. With the price declines of this week, we are fully invested in critically reviewing all information to see if this is the case.

Delta's MSI turned bearish on October 11. For intermediate term investors, being out of the stock market during the past nearly two months has avoided the anxiety associated with higher volatility. For long-term investors, the evidence shows almost no signs the economy is headed for a recession in 2019. Without a recession, historically the stock market has recovered in a matter of months and eventually reached new highs.

Give Us a Call Today

We invite you to give us a call at **(415) 249-6337**, visit www.deltaim.com or email us at info@deltaim.com if you have questions about how we can assist you in managing your investment accounts.



Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

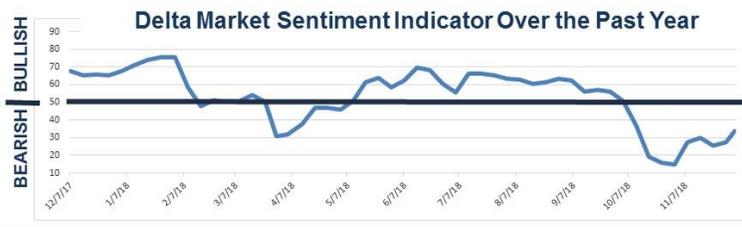
33.6

Our technical indicator increased
this week from 27.4 to 33.6

INDICATOR STATISTICS

Consecutive Bearish Weeks:	9
Cycle Inception Date:	10/11/2018
Range:	14.8 - 37.4
Mean:	25.7
Bullish Weeks YTD:	34
Bearish Weeks YTD:	15
*S&P 500	-3.1%
*DJIA	-2.3%
*NASDAQ	-3.6%

*Percentage change during current cycle



(Delta MSI is published every week in *Barron's*)

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